

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON)	
COMPANY)	
)	
)	
Proposal to implement a competitive)	No. 05-0159
procurement process by establishing Rider)	
CPP, Rider PPO-MVM, Rider TS-CPP)	
and revising Rider PPO-MI)	

DIRECT TESTIMONY OF

WAYNE BOLLINGER

ON BEHALF OF

PEOPLES ENERGY SERVICES CORPORATION

1 **I. INTRODUCTION AND WITNESS QUALIFICATIONS**

2 **Q. Mr. Bollinger, please state your name, employer, business address, and**
 3 **professional background.**

4 A. Wayne Bollinger, Peoples Energy Services Corporation (“PES”), 130 East
 5 Randolph Drive, Suite 2300, Chicago, IL 60601. I am currently the Director of
 6 Energy Supply for PES and I am responsible for the procurement, delivery, and
 7 pricing of electricity. I joined PES in April 2001. From April 2001 until
 8 November 2004 I was also responsible for the procurement, delivery, and pricing
 9 of natural gas. Prior to joining PES, I was Manager of supply at Exelon Energy
 10 Services, formerly known as Unicom Energy. My duties included management of
 11 supply procurement for natural gas for Illinois, Ohio, and California and
 12 electricity in Illinois and Ohio. I also had responsibilities for nomination and
 13 forecasting activities and due diligence for business acquisitions. From 1980 until
 14 1998, I was with Natural Gas Pipeline/MidCon Corporation where I held various
 15 positions in the engineering, planning, and marketing groups. I have a BS in
 16 Electrical Engineering from North Dakota State University, a Professional
 17 Engineering license in the State of Illinois and an MBA from DePaul University.

18
 19 **Q. On whose behalf are you testifying?**

20 A. For purposes of this piece of testimony, I am testifying solely on behalf of PES. I
 21 would note that PES is a member of the Coalition of Energy Suppliers (“CES” or
 22 “Coalition”) and supports the testimony presented by the Coalition. In fact, I also

23 have presented direct panel testimony in this proceeding on behalf of the
24 Coalition.

25

26 **Q. What is the purpose of your testimony?**

27 A. My testimony has two components. First, my testimony sets forth PES’s proposal
28 for customer groupings that would be used to categorize the types of utility
29 service various customers would be eligible for after the mandatory transition
30 period. The PES proposal is different than the Commonwealth Edison Company
31 (“ComEd”) proposal and is also somewhat different than the Coalition proposal.
32 Second, my testimony recommends that ComEd revise the supplier forward
33 contracts or Section V of the Competitive Procurement Process Auction Manual
34 Auction Manual to ensure that bidders are prohibited from sharing confidential
35 information with other market participants in a manner that could have a harmful
36 effect upon either the auction itself or the Illinois retail electric market.

37

38 **II. PES’S PROPOSED REVISIONS TO THE CUSTOMER GROUPINGS**

39 **Q. How has ComEd proposed the customer groupings be segmented?**

40 A. In its Procurement Filing, ComEd has proposed to combine all of the customer
41 groups less than 1 MW in demand into the “Competitive Procurement Process-
42 Blended (“CPP-B”) customer grouping. ComEd has proposed that this group be
43 supplied at a fixed price based on a blended wholesale product which will result
44 from the proposed auction process. Another group, defined by ComEd as
45 Competitive Procurement Process – Annual (“CPP-A”), consists of the Very

46 Large Customer Group (1-3 MW) to be supplied by a one-year, fixed-price
47 product once the customer makes a proactive election to enroll for the service.
48 Should a customer in the 1 MW to 3 MW group choose not to enroll for service,
49 then they will be supplied with an hourly-priced product.

50

51 **Q. How has the Coalition proposed that the customer groupings be revised?**

52 A. In CES Exhibit 1.0, Dr. Philip R. O'Connor maintains that the CPP-B customer
53 grouping should be bifurcated at the 400 kW level such that the Large Load
54 Customer Group (400 kW – 1 MW) would be separated from all those below that
55 level and offered a one-year, fixed price product akin to that offered to Very
56 Large Load Customers (1-3 MW), and that product should be an automatic
57 default product not requiring an affirmative election.

58

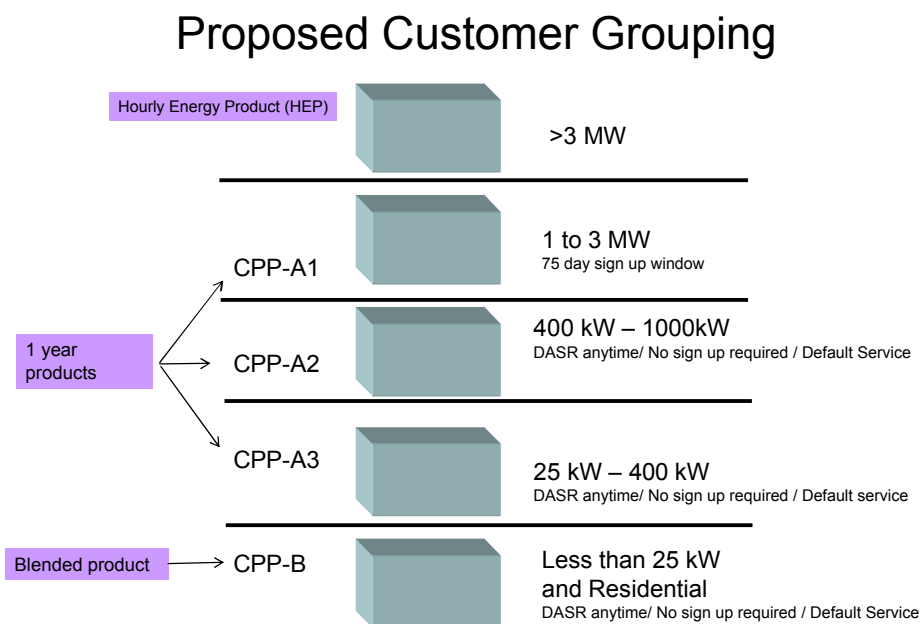
59 **Q. Does PES support the Coalition's proposed customer groupings?**

60 A. As a member of the Coalition, PES supports the Coalition proposal that has been
61 outlined by Dr. O'Connor in CES Exhibit 1.0 as a step in the right direction.
62 However, PES believes that an additional segmentation within the customer
63 grouping below 400 kW would be beneficial to the development of the
64 competitive retail electric market in Illinois.

65

66 **Q. Please describe PES's proposal for additional segmentation within the**
67 **customer grouping below 400 kW.**

68 A. In addition to the suggested segmentation advocated by the Coalition, PES
 69 recommends that the existing customer groups below 400 kW be further split into
 70 (1) a group of customers with a demand load of 400 kW to 25 kW; and (2) a
 71 group consisting of all customers with a demand load below 25 kW. The
 72 following chart, which is attached to my testimony as PES Exhibit 1.1 illustrates
 73 the customer groupings advocated by PES:



74
 75 **Q. Why does PES propose segmenting customers with demand below 25 kW**
 76 **into a separate group?**

77 A. ComEd's switching statistics for customers below 25 kW indicate very little to no
 78 switching to date. At this time, a blended portfolio is appropriate for these
 79 customers until such time that the Illinois market is more fully developed.

80

81 **Q. Why do you propose bifurcating the 25 kW to 400 kW customers rather than**
82 **including them with the 400 kW to 1 MW class?**

83 A. Virtually all of the 25 kW to 400 kW customer group presently have summary
84 read (monthly) meters. The customers in the 400 kW to 1 MW group all have
85 interval read (hourly) meters (with a few exceptions). By separating these
86 customers into two groups, wholesale suppliers will have access to more precise
87 information, allowing them to focus more accurately on the costs and risks
88 associated with each group. In addition, the respective load in both the 25 kW to
89 400 kW group and the below 25 kW group is greater than the load of the 1-3 MW
90 customers that ComEd has already segregated for auction purposes. The
91 proposed customer groups are each large enough on their own to generate supplier
92 interest and will facilitate the movement of customers to different supply
93 alternatives as switching statistics show more competition in the future.

94
95 **Q. How did ComEd determine what products would be offered to each of its**
96 **proposed customer groupings?**

97 A. ComEd witness William P. McNeil states that ComEd incorporated into its
98 auction proposal the desire of the Commission Staff that small customers receive
99 “a relatively stable product for small customers based on overlapping multi-year
100 full requirements contracts with supplier . . .” (ComEd Ex. 3.0 at lines 261-63
101 *citing* Illinois Commerce Commission, *The Post 2006 Initiative: Final Staff*
102 *Report to the Commission* at 15 (Dec. 2004).) ComEd asserts that this type of
103 supply product should be made available to customers up to 1 MW.

104

105 ComEd witness McNeil also explains in his testimony that under ComEd's
106 proposal, customers with a demand of between 1 MW and 3 MW would have a
107 one-year, fixed price supply contract as their only alternative to defaulting to an
108 hourly priced product. McNeil asserts that such Very Large Load Customers
109 "have more sophisticated energy planning methods available to them and are
110 better able to accept and manage risk, and will have different needs in the post-
111 2006 environment than smaller customers. ComEd has therefore designed its
112 supply procurement proposal for this market segment to take into account these
113 differences." (ComEd Ex. 3.0 at lines 509-13.)

114

115 **Q. Do you agree with ComEd that all customers with a peak demand of less**
116 **than 1 MW should be offered a blended portfolio supplied with multi-year**
117 **products?**

118 A. No. ComEd has underestimated the sophistication of its customers.

119

120 **Q. What evidence is there that customers with peak demands of less than 1 MW**
121 **are sophisticated energy purchasers?**

122 A. In the ComEd service territory, almost all customers are also customers of one of
123 the natural gas utilities. These customers likely already purchase natural gas from
124 a utility whose prices vary from month to month, or alternatively they purchase
125 natural gas from a non-utility supplier who may provide a range of products to the
126 customer including: prices tied to variable published indices, fixed prices with

127 various terms, and other alternative products that can have various limits or
 128 ranges of the maximum price that can be paid based on a particular bilateral
 129 agreement. The fact that customers are able and willing to negotiate and execute
 130 these types of contracts with natural gas suppliers and utilities provides a strong
 131 indication that these same customers likely would be willing to execute similar
 132 agreements with regard to the provision of electricity.

133

134 **Q. Has PES provided these types of products to natural gas customers?**

135 A. Yes.

136

137 **Q. What type of product should be offered to the 400 kW to 25 kW customer**
 138 **group?**

139 A. In general conformance with the way in which customer groupings have been
 140 proposed by ComEd and the Coalition, PES recommends that the customers with
 141 peak demands between 25 kW and 400 kW should have a 1-year product supplied
 142 by 1-year supply contracts. Alternatively, and less preferably, these customers
 143 could be supplied by 1-year and 3-year supply arrangements.

144

145 **Q. How do you propose that the Commission should reallocate the tranches in**
 146 **the event that the 5-year product is eliminated for these customers?**

147 A. The percentage of load that ComEd has proposed to be provided by the 5-year
 148 product instead should be allocated to increase the percentage of 1-year contracts
 149 in the auction. That is, although PES would like to see all 5-year and 3-year

150 contracts eliminated from the supply portfolio for customers with demands of 25
151 kW to 400 kW, in no event should the 3-year contracts comprise more than 60%
152 of that portfolio.

153

154 **Q. Why do you recommend eliminating the 5-year contract from the blend of**
155 **products being offered to the 25 kW to 400 kW customer grouping?**

156 A. There are at least seven (7) independent reasons for the Commission to reject a 5-
157 year product:

158

159 First, ComEd's proposal for a 5-year contract as part of the blended portfolio
160 would impact this group of customers until 2012, unnecessarily retarding the
161 development of competition for these customers. Serving these customers using a
162 1-year product would increase the Commission's flexibility to develop alternative
163 auction products for this group.

164

165 Second, while a 5-year product would add another element of stability to the
166 overall rate, there is not a robust market for a 5-year product in the wholesale
167 electricity market. This may result in additional cost to procure the product.

168

169 Third, in the event the bids for the 5-year portion of the product are not received
170 or rejected, this product will be difficult to replace under ComEd's proposed
171 contingency plans.

172

Fourth, with the longer time commitment, suppliers likely would add additional risk premiums to their bids, to lock into the price to serve a changing load for the extended period. As a result, higher rates may be locked in for five years.

Fifth, the 5-year product introduces the risk to suppliers that a portion of the load will be declared competitive during the term of the product. As discussed above, this also will result in added risk premiums and added cost to the customer or may delay a desired, perhaps corrective, action, in the auction process.

Sixth, we should not presume to know what the market will look like in five years. The one fact that we do know is that we do not know with any degree of certainty what the market will look like in five years. Given the level of uncertainty in both the wholesale and retail electric markets, the Commission should not lock in a regulatory construct that purports to set rates until the middle of 2012.

Seventh, the novelty of the 5-year product and the potential for some scarcity in response by bidders suggest that the more that the 5-year product can be focused upon the customer segments for which longer range rate stability has been advanced as a benefit, the more likely it is that the 5-year element of the auction will be able to deliver as hoped.

195 **III. CONFIDENTIALITY OF AUCTION INFORMATION**

196 **Q. What concerns does PES have regarding confidentiality and the auction**
197 **process?**

198 A. PES's concern is primarily with confidentiality of information that bidders will
199 obtain throughout the auction process. While the Auction Manual addresses
200 confidentiality of data issues to some extent, it does not appear to be
201 comprehensive. In our review of the supplier forward contracts, as introduced in
202 exhibits to the Direct Testimony of Mr. McNeil, we did not see where ComEd has
203 addressed the issues of data exchange between a bidder (interested, qualified or
204 registered) and another market participant that is active in the Illinois retail
205 electric market. Communication between the bidders and Illinois retail electric
206 market participants (regardless of whether they are affiliated, disclosed or
207 divisions of the same company) during the auction process could give unfair
208 advantages to certain market participants and even to bidders themselves.
209 Particularly in the case where a wholesale bidder and a RES are sharing
210 information about their respective market knowledge and internal strategies, one
211 or both of these parties may use the others information and have an unfair
212 advantage over their respective peers. Section V of the Auction Manual explicitly
213 should prohibit confidential auction-related information from being shared with
214 any other Illinois retail market participant, including affiliates, regardless of
215 whether that relationship is disclosed. PES requests that ComEd either explain
216 where these issues are addressed or propose modifications to the supplier forward
217 contracts and/or the Auction Manual to address these concerns.

218

219 **IV. CONCLUSION**

220 **Q. Please summarize your recommendations.**

221 A. ComEd's procurement proposal should be modified as follows:

- 222 • Adopt the segmentation advocated by the Coalition, to establish a separate
- 223 customer grouping for customers with peak demands of 400 kW to 1 MW;
- 224 • Adopt the additional segmentation advocated by PES to establish (a) a group of
- 225 customers with a demand load of 400 kW to 25 kW, which should be served via a
- 226 1-year auction product; and (b) a group consisting of all customers with a demand
- 227 load below 25 kW, which should be served via a blended multi-year product.
- 228 • Clarify and/or modify the forward contracts and/or the Auction Manual such that
- 229 bidders are prohibited from sharing confidential information regarding the auction
- 230 with other market participants in a manner that would undermine the auction or
- 231 harm the Illinois retail electric market.

232

233 **Q. Does this conclude your direct testimony?**

234 A. Yes.